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MSE INSOLVENCY: THE COLOMBIAN CASE AS A MODEL FOR ADAPTIVE IMPLEMENTATION

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INSOL International is pleased to present this new technical paper, "MSE Insolvency: The Colombian Case as a Model for Adaptive Implementation".

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Since the COVID-19 pandemic, global insolvency reform has continued at a remarkable pace. Legislators are increasingly looking towards dedicated micro and small enterprise (MSE) insolvency processes as a pathway towards economic stability, growth, innovation, jobs creation and sustaining livelihoods in local communities. This is particularly the case in emerging markets and developing economies, where MSEs typically make up the vast majority of economic activity.

This paper provides an analysis of the economic imperative of structural reforms which provide a means for viable MSEs to restructure their affairs, and for unviable MSEs to quickly exit the market, as an alternative to traditional formal insolvency processes which are not tailored to the unique circumstances of MSEs.

The paper then outlines the lessons that can be taken from recent global MSE insolvency reform experiences before focusing on the MSE insolvency process introduced by Colombia's Law 2437 of 2024. The author suggests that the Colombian model reflects the successful domestication of international best practices, striking a balance between procedural simplicity and institutional rigour – with its core features of transparency, creditor participation and efficiency serving as a replicable model for other emerging markets seeking to strengthen their insolvency architecture.

INSOL International thanks the author for her expertise and extensive research in preparing this paper.

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1. Introduction

The COVID-19 pandemic compelled governments across the globe to confront the inherent structural weaknesses of their insolvency and restructuring frameworks. Micro and small enterprises (MSEs), which represent more than 90% of global businesses and are the backbone of employment and innovation, were among the hardest hit by the crisis. Yet traditional insolvency systems, designed primarily for large corporations, proved to be inaccessible, overly judicialised and prohibitively expensive for these smaller economic actors.

The pandemic did more than test solvency. It exposed a systemic imbalance in access to legal and financial protection. While several advanced economies swiftly adapted their frameworks, introducing expedited procedures and liquidity mechanisms to preserve small businesses, many developing and emerging markets were constrained by rigid, court-driven systems detached from the operational and financial realities of MSEs. The absence of tailored insolvency solutions led to widespread business closures, eroding local productive capacity and exacerbating social and economic vulnerability.

In response, an international consensus began to emerge – reflected in the World Bank's ICR Principles, the Legislative Guide on Insolvency Law (Part V) developed by the United Nations Commission on International Trade Law (UNCITRAL), and policy papers of the International Monetary Fund (IMF) – emphasising the need for simplified, cost-effective and accessible insolvency procedures for MSEs. Jurisdictions such as Singapore, the United States and, notably, Colombia, have pioneered legal innovations that translate these global standards into domestic frameworks.

This paper argues that the modernisation of insolvency regimes must begin with MSEs if the objectives of financial stability, innovation and inclusive growth are to be achieved, particularly in emerging economies. It explores the principal barriers MSEs face in accessing insolvency protection and analyses recent legislative innovations that address these challenges.

Colombia's Law 2437 of 2024 (New Law) stands out as a particularly instructive case. It demonstrates how a civil law jurisdiction in Latin America has successfully domesticated international best practices, striking a balance between procedural simplicity and institutional rigour. The Colombian model integrates the principles of transparency, creditor participation and efficiency, while also considerably reducing formalism. This makes the Colombian model a replicable and context-sensitive framework for other emerging markets seeking to strengthen their insolvency architecture.

Colombia's experience reveals that effective insolvency reform is not merely a technical adjustment, but a structural policy instrument capable of promoting resilience, restoring trust and preserving economic dynamism in the MSE sector. Ultimately, this is a sector that, in times of crisis, sustains both livelihoods and long-term recovery.

2. The insolvency of MSEs as a structural challenge to global economic stability

As noted, MSEs form the foundation of the global economy. They are the engines of employment, innovation and social inclusion. Yet their structural vulnerability to economic, health and geopolitical shocks underscores how inadequately existing insolvency frameworks address the realities experienced by MSEs.

Before the pandemic, fewer than 10% of countries had legal regimes tailored to the operational and financial conditions of small enterprises. This regulatory gap has left MSEs disproportionately exposed to insolvency risk, undermining not only local employment but also global financial stability.

The main structural barriers that prevent MSEs from accessing effective restructuring or liquidation mechanisms are outlined below.

2.1 Procedural and cost barriers

Traditional insolvency systems, designed for large corporations, require specialised legal representation, audited financial statements and expert procedural management. These demands are financially unrealistic for small enterprises. As a result, many handle insolvency informally, shutting down operations abruptly or accumulating unsustainable debt, with negative effects on suppliers, creditors and the financial system.

2.2 Stigma and reputational risk

In many jurisdictions, filing for insolvency still carries social stigma, leading to reputational harm, exclusion from formal credit and distrust from suppliers. This cultural barrier discourages early intervention, pushing entrepreneurs towards informality or silent closure.

2.3 Rising default and systemic credit risk

According to recent multilateral evidence, financial distress among MSEs remains a global and persistent concern. The World Bank's 2022 World Development Report found that 48% of MSEs worldwide, and 53% of micro-enterprises, were either in arrears or expected to be in arrears within 6 months of mid-2020, revealing the depth of the liquidity shock caused by the pandemic.[1]

Subsequent data confirms that the crisis evolved into permanent structural vulnerability rather than a temporary disruption. The International Finance Corporation estimates an unmet credit demand of US $ 5.7 trillion, up nearly 27% from pre-pandemic levels, reflecting both the contraction of formal lending and rising collateral requirements.[2] Similarly, the OECD reports a 4.7% decline in MSE loan volumes in 2023 alongside increasing non-performing loans,[3] while the European Central Bank highlights the deterioration of asset quality in the MSE segment as a key systemic risk.[4]

Regional analyses reinforce this trend. AMRO, an international organisation which aims to contribute to securing the macroeconomic and financial resilience and stability of the ASEAN+3 region and its 14 member economies,[5] identifies elevated debt-at-risk ratios among these economies,[6] while the European Investment Bank reports that non-performing loan ratios in Central Africa exceed 13%, the highest among African sub-regions.[7]

Collectively, these findings underscore a common pattern across jurisdictions: MSEs face restricted access to credit, elevated default risk and fragile recovery prospects. This reality strengthens the case for insolvency reform centred on simplified, accessible and digitally enabled procedures that protect viable enterprises and preserve value before it is destroyed.

2.4 Personal liability and hybrid structures

In emerging markets, many small enterprises operate as informal or semi-formal businesses. Owners frequently guarantee business debts personally, so failure can lead to individual bankruptcy. This dynamic discourages entrepreneurship, deepens social vulnerability and reduces long-term economic resilience.

Over the past decade, policymakers and financial regulators have come to recognise that the absence of accessible insolvency frameworks for MSEs constitutes not merely a legal omission, but rather a much deeper global financial stability risk.

In 2021, UNCITRAL addressed this gap through its Legislative Guide on Simplified Insolvency Regimes for Micro and Small Enterprises. While non-binding, the Guide represents a milestone: it provides states with a coherent structure for designing simplified proceedings that balance accessibility, creditor protection and procedural integrity.

In this global context of growing MSE distress and the urgent need for more inclusive insolvency systems, Colombia's New Law represents one of the most significant contemporary examples of how international standards can be translated into effective domestic reform. The reform closely aligns with the World Bank's Insolvency and Creditor/Debtor Regimes (ICR) Principles, which articulate a modern and development-oriented vision of insolvency law: one that prioritises accessibility, proportionality and systemic stability over formality and punitive enforcement.

The ICR Principles set out practical recommendations that are particularly relevant for MSE insolvency frameworks. Their most notable proposals include:

a) eliminating mandatory legal representation to reduce entry costs and expand access for debtors and creditors alike;

b) standardising procedures through simplified forms, digital case management and virtual hearings;

c) delegating oversight to administrative or auxiliary authorities based on case complexity;

d) introducing tools such as deemed consent and simple majority voting to prevent obstruction and accelerate restructuring; and

e) recognising the importance of a "second chance" for honest but unfortunate entrepreneurs through potential debt discharge mechanisms.[8]

1 World Bank, *World Development Report 2022: Finance for an Equitable Recovery* (World Bank 2022) 87-90.
2 UNCITRAL, *Legislative Guide on Insolvency Law, Part Five: Insolvency of Micro and Small Enterprises* (United Nations 2021) 5-8.
3 IMF, *Corporate Sector Distress and the Role of Insolvency Frameworks*, Global Financial Stability Report (IMF 2022) 62–66.
4 OECD, *Financing SMEs and Entrepreneurs 2023: An OECD Scoreboard* (OECD Publishing 2023) 34–47.
5 Brunei Darussalam, Cambodia, China, Hong Kong, Indonesia, Japan, Korea, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. ASEAN+3 Macroeconomic Research Office, *ASEAN+3 Regional Economic Outlook 2024* (AMRO 2024) 31–37.
6 European Investment Bank, *Finance in Africa* (EIB 2023) 49–54.
7 World Bank, *Principles for Effective Insolvency and Creditor/Debtor Regimes* (WB 2021) 12-19.
8 IMF, *World Economic Outlook: Countering the Cost-of-Living Crisis* (IMF 2023) 23-27.

Taken together, these principles reflect a new global vision: insolvency law should not punish failure, but rather facilitate recovery, inclusion and systemic stability.

Colombia's New Law embodies this approach through its simplified, digitally enabled and territorially decentralised procedures, transforming insolvency from a judicial privilege into a genuine instrument of economic resilience. By embedding the ICR Principles into a civil law environment, Colombia demonstrates how emerging markets can localise international best practices while fostering formalisation, productivity and trust in the financial system.

3. The urgency of structural reforms for the insolvency protection of MSEs

Today's global economy has intensified the structural vulnerabilities of MSEs, exposing them to greater legal, financial and operational fragility. The World Bank now projects global growth at just 2.3%,[9] the lowest in more than two decades. Combined with persistent inflation, high interest rates and record corporate indebtedness, this environment places MSEs at the epicentre of economic risk.

The consequences reach far beyond small businesses themselves. A mass insolvency event among MSEs could ignite systemic credit losses, disorderly asset liquidations and a rise in "zombie" firms, companies that survive only through unsustainable borrowing, draining resources and distorting competition.

Major multilateral institutions and policy research centres increasingly converge on a shared diagnosis: the stability of the global financial architecture depends on insolvency frameworks that are accessible, efficient and proportionate to the realities of MSEs.

As the IMF has cautioned, "countries should act now to limit rising risks from corporate distress,"[10] underscoring the systemic threat posed by widespread corporate deterioration and the urgent need for effective restructuring frameworks. The analysis of the Organisation for Economic Cooperation and Development (OECD) complements this concern. According to the OECD, the cost of MSE financing has increased sharply,[11] thereby constraining both credit demand and supply and exposing smaller firms to higher entry barriers in financial markets.

From a technical and policy perspective, the convergence between the IMF, the OECD and the World Bank's ICR Principles reinforces three practical lessons for the design of MSE-oriented insolvency reforms. First, accessibility: reducing entry costs and procedural complexity to ensure that small debtors can meaningfully engage with formal systems.

Second, institutional proportionality: aligning the degree of judicial involvement and administrative oversight with case complexity, thereby allowing simple cases to be handled through non-judicial or hybrid procedures.

Third, value preservation and second chances: prioritising business reorganisation and orderly liquidation over premature dissolution in order to safeguard employment, productive capacity and social capital.

These are not abstract aspirations but rather form a coherent policy package that, when calibrated to each country's institutional capacity, directly mitigates the systemic risks identified by the IMF and addresses the credit frictions documented by the OECD. In practice, these principles lay the foundation for sustainable insolvency reform in emerging markets – transforming insolvency law from a reactive tool of enforcement into a proactive instrument of economic stability and inclusive growth.

3.1 Emerging models of reform

Several jurisdictions have already pioneered simplified mechanisms for small business restructuring or liquidation. These experiences provide valuable lessons for designing scalable frameworks that preserve value while protecting financial stability.

- **United States – Subchapter V (2020)**

  Introduced under the CARES Act, Subchapter V of Chapter 11 established a streamlined reorganisation pathway for small businesses. By reducing procedural complexity, eliminating the creditors' committee in many cases and automatically appointing a trustee, the United States achieved faster, more cost-effective resolutions. Thousands of small enterprises have since reorganised successfully without protracted litigation.

  Empirical assessments (including reports by the United States Trustee Program and the American Bankruptcy Institute Task Force) have found that Subchapter V cases typically confirm plans more often, more quickly and at lower cost than comparable small business Chapter 11 filings, leading many commentators to regard Subchapter V as a successful legislative calibration for small-business restructurings.[12]

9 OECD, *Structural Business Statistics and SME Trends 2024* (OECD 2024) 15-21.
10 IMF, *Corporate Sector Risks and Insolvency Trends*, Policy Note (IMF 2024) 15-20.
11 ABI Subchapter V Task Force, *Preliminary Evaluation of the Small Business Reorganization Act* (American Bankruptcy Institute 2022) 4–12.
12 US Trustee Program, *Subchapter V Case Trends and Outcomes Report* (US Department of Justice 2023) 1-10.

The United States experience also shows the importance of clear eligibility rules, trustee roles that facilitate consensual resolution and empirical monitoring to validate policy outcomes.

Subchapter V underlines the value of statutory calibration (shorter timelines, simplified procedures and adapted trustee roles) in achieving timely reorganisations, and the critical role of empirical monitoring to justify keeping or expanding such special tracks.

- **India – pre-pack for MSEs (2021)**

India's Pre-Packaged Insolvency Resolution Process (PPIRP), introduced in 2021 under Chapter IIIA of the Insolvency and Bankruptcy Code (IBC), represents a hybrid innovation that combines informal creditor negotiation with formal judicial validation. Designed exclusively for MSEs, the PPIRP allows debtors and creditors to reach a consensual restructuring plan prior to filing, which is then presented to the National Company Law Tribunal (NCLT) for confirmation within a strict 120-day timeframe.

This hybrid structure – part contractual, part judicial – seeks to preserve going-concern value while reducing court congestion, costs and time-to-resolution. The process is debtor-in-possession, but with creditor supervision: once most unrelated financial creditors approve the base plan, the debtor retains control unless the plan fails, in which case the company transitions into a full corporate insolvency resolution process (CIRP).

From a policy and design perspective, India's PPIRP marks a significant evolution towards proportionate insolvency mechanisms for smaller entities. It is widely regarded as one of the most innovative adaptations of the UNCITRAL simplified insolvency principles within a large emerging market.

Academic and practitioner commentary highlights the PPIRP's positive reception for its flexibility, reduced cost structure and collaborative ethos.[13] The Indian Institute of Insolvency Professionals (IIIP) and the Centre for Insolvency and Financial Law Studies (NLSIU) both underscore the PPIRP's success in facilitating early creditor-debtor coordination and maintaining business continuity during distress periods.[14] Practitioners have noted that pre-packs "enhance efficiency, transparency and value preservation, particularly for MSEs with viable core operations."[15]

However, these same studies recognise ongoing challenges: ensuring consistent NCLT capacity, strengthening disclosure obligations and expanding the framework to non-MSME debtors while avoiding misuse.[16] As of mid-2025, empirical evidence suggests rising uptake, with over 300 PPIRP filings across multiple sectors and average resolution times well below those in ordinary CIRP cases.[17]

Overall, the Indian PPIRP stands out for its balance between creditor oversight and debtor autonomy, an equilibrium that many commentators consider an example of "constructive proportionality" in insolvency design.[18] It reflects the growing recognition that formal court processes must be complemented by flexible, pre-negotiated mechanisms that accommodate MSEs' limited resources and managerial bandwidth.

For Colombia and other emerging economies, the Indian model demonstrates how structured pre-packs can operate within a civil law influenced jurisdiction while preserving procedural integrity. It confirms that proportionality, digitalisation and creditor engagement, when embedded in a clear statutory framework, can generate outcomes consistent with the World Bank's ICR Principles: accessibility, cost-efficiency and value preservation.

- **Australia – small business restructuring (2021)**

Australia's small business restructuring (SBR) framework, introduced with effect from 1 January 2021, allows companies with liabilities under AU $1 million to restructure while retaining management control, under the guidance of a registered professional. Plans must be submitted within 20 business days, accelerating recovery and ensuring operational continuity.

Early reviews completed by the Australian Securities and Investments Commission document growing use of the regime and identify implementation issues, form lodgment errors, practitioner compliance matters and a measured rise in creditor-rejection rates as the number of cases scales.[19] Recent industry reporting and regulator follow-ups through 2024–2025 indicate the SBR mechanism has achieved substantial traction: thousands of appointments and many confirmed plans. However, there is also a need for continued practitioner training, form standardisation and safeguards to maintain creditor confidence as the process scales.[20]

13 Insolvency and Bankruptcy Board of India (IBBI), *Handbook on the Pre-Packaged Insolvency Resolution Process* (IBBI 2022) 7-16.
14 Indian Institute of Insolvency Professionals (IIIP), *PPIRP Implementation Review* (IIIP 2023) 3-9.
15 Centre for Insolvency and Financial Law Studies (NLSIU), *Empirical Study of India's PPIRP Regime* (NLSIU 2024) 10-18.
16 ASIC, *Small Business Restructuring Statistics and Findings* (ASIC 2023) 1-6.
17 ASIC, *Regulatory Guide: Small Business Restructuring Practitioner Obligations* (ASIC 2024) 22-29.
18 Australian Securities and Investments Commission (ASIC), *Small Business Restructuring Statistics and Findings* (ASIC 2023) 1-6.
19 European Commission, *Directive (EU) 2019/1023 on Preventive Restructuring, Discharge of Debt and Insolvency* [2019] OJ L 172/18, 4-11.
20 Spain Ministry of Justice, *Guía Práctica de los Planes de Reestructuración* (2023) 13-22.

The Australian experience highlights the effectiveness of a practitioner-led, debtor-in-possession model when coupled with active regulatory review.

The SBR model also shows how delegating operational responsibility to trained practitioners, combined with a light but active regulator, can expand access quickly; but at the same time, how scaling requires iterative fixes to forms, training and quality assurance to avoid predictable implementation frictions.

- **Spain - special procedures and enhanced restructuring tools (2023)**

Spain's 2022 insolvency reforms (implemented from 2023) substantially modernised restructuring procedures, strengthened early warning and preventive tools, and refined the balance between creditor protections and preservation of going-concern value. The reforms introduced procedural streamlining, clarified grounds for plan approval and adjusted challenge grounds — producing early evidence of shifting bargaining dynamics between debtors and creditors.

Spanish practice illustrates how a comprehensive overhaul (rather than a narrowly specialised small-business track) can rebalance incentives and encourage preventive restructuring. Broader legislative reform that upgrades prevention, early warning and confirmation mechanics can deliver systemic improvements affecting small and larger firms alike. However, micro-tailoring (e.g. simplified national tracks) may still be needed for the smallest enterprises.

As to the specifics of Spain's reform process, the Spanish Insolvency Law (Ley 16/2022), enacted to transpose Directive (EU) 2019/1023 on preventive restructuring, debt discharge and efficiency of insolvency proceedings (EU Directive), represents one of the most comprehensive overhauls of an insolvency framework in Europe. It not only aligned Spanish law with European Union (EU) standards, but also established a pioneering model of flexibility and accessibility particularly relevant for MSEs. This reform constitutes a paradigmatic case of legal adaptation that responds to structural challenges – cost, delay and over-judicialisation – that have traditionally excluded small businesses from formal insolvency protection.

The reforms introduced three transformative pillars that reshaped the Spanish system. First, the creation of preventive restructuring plans replaced the dual regime of refinancing agreements and out-of-court payment arrangements with a unified, pre-insolvency framework aimed at early intervention. These plans allow debtors facing a "probability of insolvency" to negotiate with creditors prior to default, ensuring continuity of viable businesses and preventing value destruction. Judicial involvement is limited to two procedural junctures — notification and homologation – thereby reducing court congestion and aligning with the principle of minimal intervention emphasised by the EU Directive.

The Spanish Insolvency Law also established a special insolvency procedure for microenterprises – a simplified, fully digital track designed for entities below specific thresholds in turnover, assets and workforce. This innovation is particularly significant given that microenterprises represent approximately 94% of Spain's business fabric. The procedure integrates automatic digital filing, standardised forms, algorithm-assisted calculation tools and online asset liquidation through a national electronic platform. By drastically reducing administrative costs and procedural formality, this mechanism brings insolvency relief within the reach of the smallest market actors, echoing the proportionality principle central to the World Bank's ICR Principles.

The reforms also advanced a reduction of judicial formality and the digitalisation of all insolvency stages, introducing electronic templates, automated case management and an online liquidation marketplace. Complementary "early warning" and self-diagnostic tools were also institutionalised to help debtors detect financial distress in advance, encouraging voluntary and timely restructuring rather than reactive liquidation.

These innovations collectively embody the EU's preventive and rehabilitative philosophy, converting insolvency from a punitive sanction into a mechanism of economic renewal.

- **Singapore – simplified programme for MSEs (2020)**

Singapore introduced a Simplified Insolvency Programme (SIP) in 2020 as a temporary, low-cost alternative to the full judicial insolvency track for small companies, with two parallel strands for simplified debt restructuring (SDRP) and simplified winding up (SWUP).

The SIP was expressly designed to reduce procedural formality, shorten timelines, lower fees and broaden access for small corporate debtors that would otherwise be unable to use standard insolvency remedies. The programme was initially temporary and periodically extended as the Singapore Ministry of Law (MinLaw) continued to evaluate its operation.

In November 2024, MinLaw published proposals to revamp the SIP and make it a permanent feature of the Insolvency, Restructuring and Dissolution Act 2018.[21] The Singapore Government has extended the application period for the SIP until 28 January 2026, while the permanent legislative changes are taken forward.

These reforms formalise core SIP features now understood as best practice for MSEs: simplified standardised forms, clear eligibility criteria, digital filing and case management, and administrative facilitation to reduce judicial congestion and transaction costs.

The SIP's trajectory to implementation – first introduced as a temporary emergency measure, then becoming the subject of an evaluated pilot prior to statutory permanence – also exemplifies a pragmatic path for reformers. It showcases the value of careful and considered policy analysis and implementation, and widespread industry and stakeholder consultation as opposed to the wholesale adoption of systems introduced in other jurisdictions that may not be "fit for purpose" or adapted to local conditions. The recent moves to revamp and make SIP permanent confirm Singapore's judgment that a durable, simplified track for small firms promotes orderly restructuring while preserving judicial resources.

- **Key takeaways**

Collectively, the reforms in these jurisdictions signal a paradigm shift: insolvency is evolving from a punitive mechanism to a policy instrument for financial stability and business continuity. As harmonisation advances – similar to what has been achieved in banking regulation, accounting standards (IFRS) and data protection (GDPR) – simplified insolvency systems are emerging as essential components of sustainable economic governance.

Singapore's SIP shows the political and technical advantages of piloting simplified tracks under sunset provisions, evaluating outcomes and then legislating permanence where evidence supports it; Australia's SBR evidences that practitioner-led models can scale access while preserving oversight, but they require active regulatory reviews and capacity-building; the United States Subchapter V experience confirms that statutory timeframes, trustee roles and simplified confirmation mechanics materially reduce cost and delay for small debtors, provided policymakers monitor empirical performance; and Spain's reform process showcases legal adaptation that responds to structural challenges that have restricted previous restructuring opportunities for MSEs.

The next section of this paper explores the Colombian MSE reform experience. As will be discussed, the Colombian experience illustrates how jurisdictions can translate the World Bank's ICR Principles into civil law, territorially-aware instruments – but at the same time, how the impact of any new MSE insolvency system will ultimately depend on training, decentralised capacity and digital implementation.

4. Colombia as a replicable model

Among Latin American nations, Colombia has emerged as a standout example of adaptive reform. In response to the COVID-19 crisis, the Colombian Government issued Legislative Decrees 560 and 772 of 2020, introducing temporary insolvency mechanisms for small enterprises. Their success laid the groundwork for permanent reform, culminating in the enactment of the New Law, which amended Law 1116 of 2006 and institutionalised simplified insolvency regimes.

The New Law establishes a permanent framework that consolidates prior emergency decrees and embeds simplified, territory-sensitive procedures for business rescue and orderly exit. The New Law implements many features central to the ICR Principles and the multilateral policy consensus: procedural proportionality, mechanisms to reduce entry costs, and administrative / digital tools to decentralise access (including leveraging chambers of commerce and electronic case management).

Early commentary highlights the New Law's potential to make insolvency protection more accessible to smaller enterprises while noting that implementation (the training of facilitators, monitoring of compliance and local administrative capacity) will determine ultimate effectiveness.[22]

The New Law establishes two core procedures: abbreviated reorganisation and simplified judicial liquidation, both tailored to MSEs with assets of up to 5,000 SMLMV. Together, they represent a structural transformation of Colombia's insolvency landscape, combining pragmatism, efficiency and creditor protection.

4.1 Abbreviated reorganisation for viable enterprises

This proceeding enables the restructuring of liabilities within approximately 3 months, an unprecedented timeline for Latin America. It prioritises business continuity and negotiation over litigation, aligning judicial oversight with conciliation rather than control.

21 Singapore Ministry of Law, *Consultation Paper on the Permanent Simplified Insolvency Programme* (MinLaw 2024) 1-14.
22 Ley 2437 de 2024 (Colombia).

Key features include:

a) swift admission upon verified payment cessation;

b) immediate appointment of a restructuring promoter to assist in drafting the reorganisation plan;

c) mandatory updating of financial statements to ensure transparency;

d) fixed deadlines for objection and confirmation hearings (within 3 months); and

e) mandatory registration of proceedings in the Collateral Registry (*Registro de Garantías Mobiliarias*), strengthening creditor confidence and legal publicity.

Commencement of the proceeding	1. The petition may be filed by the debtor or by one or more creditors 2. The cessation of payments must be duly evidenced, and the general requirements set forth in the New Law must be fulfilled 3. The insolvency judge shall admit the proceeding if the petition is complete and satisfies the legal prerequisites
Opening order	A restructuring promoter is formally appointed 1. The judge shall order: a) the submission of the draft list of claims and voting rights; b) the updating of the asset inventory; and c) the registration of the proceeding in the Collateral Registry 2. The judge shall set two specific dates: a) one for the conciliation hearing on objections; and b) another for the confirmation hearing of the restructuring agreement, both to be held within a maximum of 3 months
Conciliation hearing on objections (mandatory)	1. Presided over by the insolvency judge, acting as conciliator 2. Aimed at resolving disputes regarding claims and voting rights through settlement mechanisms 3. The hearing outcome shall be recorded in an official minutes document, along with the business plan and the proposed restructuring agreement
Confirmation hearing and final resolution	1. The court shall resolve any pending objections and submit the agreement to a legality review 2. If the restructuring agreement meets all legal requirements, it shall be confirmed and will produce the same legal effect as an agreement confirmed under the ordinary reorganisation proceeding 3. If the parties fail to reach an agreement, the judge shall initiate the simplified judicial liquidation proceeding

This design introduces flexibility without sacrificing procedural rigour. It empowers entrepreneurs to address liquidity crises early, protecting both jobs and creditor recovery prospects.

4.2 Simplified judicial liquidation for non-viable enterprises

For businesses that have no viable prospect of being revived, the New Law provides an efficient liquidation mechanism focused on maximising asset value and minimising costs. Proceedings are to be completed within 6 months, guided by a professional liquidator under judicial supervision.

Distinctive features include:

a) financial statements prepared under the "non-going concern" assumption;

b) fast-track appointment of liquidators;

c) asset valuation provided at liquidation value and opportunities opened for creditors to submit higher purchase offers; and

d) public notice and transparent sale mechanisms through electronic auctions or direct transactions.

Commencement of the proceeding	1. The petition is submitted by the debtor to the insolvency judge, in compliance with the formal requirements set forth in the New Law 2. The financial statements must be prepared under the "non-going concern" assumption, meaning that all assets must be valued at net liquidation value
Opening order	The judge admits the petition and appoints a liquidator from the official list of auxiliaries maintained by the Superintendence of Companies
Main procedural phases	1. The liquidator must file: a) an estimate of administrative expenses, including labour liabilities; b) a draft list of claims and ranking of creditors, within 15 days; and c) an inventory of assets, valued at net liquidation value 2. Creditors: a) have 10 days to submit their claims; and b) may object to the valuation of assets, submitting either professional appraisals or binding purchase offers for higher amounts 3. The judge resolves any objections and approves the inventory and claims list
Asset sale phase	During a 2 month period, the liquidator must sell the assets by means of: a) execution of approved binding offers; and b) direct sale or electronic auction, at no less than net liquidation value
Adjudication and final account rendering	The liquidator submits the distribution plan and the judge issues the order of adjudication and: a) within 20 days, the adjudicated assets must be physically delivered; and b) subsequently, the liquidator files the final account, which is made available to interested parties for a 5 day review period
Special provisions	Financial information must reflect the liquidation assumption (non-going concern). If the liquidation procedure results from a failed reorganisation, the former legal representative must adjust the financial statements within 1 month following the termination of the reorganisation process The deadline for excluding assets from the inventory, either due to third party ownership or a secured creditor's preferential rights, is 1 month from the issuance of the opening order

This procedure provides an orderly market exit, while maintaining transparency and fairness for creditors. It is particularly relevant for civil law jurisdictions with limited judicial capacity, offering a scalable model for regions where over-burdened courts and informality often hinder insolvency resolution.

Colombia's reform stands out for its institutional pragmatism. Instead of replicating complex foreign models, it localises international standards through simplicity, orality and digital tools. The country's experience demonstrates that even within constrained institutional settings, it is possible to design modern, efficient insolvency systems that protect both debtors and creditors.

5. Insolvency frameworks for MSEs as instruments of systemic stability

Simplified insolvency regimes are far more than legal innovations – rather, they are strategic tools for macroeconomic resilience. They enhance credit predictability, strengthen financial discipline and contribute to broader financial inclusion.

5.1 Credit risk containment

By channelling default through formal, predictable procedures, simplified regimes prevent chaotic enforcement and maximise recovery value. Collective negotiation and defined timelines improve risk modelling for banks and investors, reinforcing portfolio stability.

5.2 Prevention of informality

Without accessible legal mechanisms, distressed MSEs often resort to informal shutdowns, debt evasion or asset concealment. Simplified insolvency frameworks create structured pathways for resolution, reducing moral hazard and fostering responsible business conduct.

5.3 Access to credit and second chances

A transparent, non-stigmatising system allows entrepreneurs to reintegrate into the formal economy after failure. This expands the pool of bankable borrowers and encourages financial inclusion – critical for women-led, rural or family-owned enterprises.

5.4 Preservation of economic value

Early intervention prevents value destruction. By keeping productive assets, contracts and employees within viable structures, simplified regimes safeguard collateral, sustain supply chains and protect employment.

5.5 Institutional resilience

At the systemic level, simplified MSE insolvency frameworks serve as financial shock absorbers. They help contain over-indebtedness cycles, preserve banking solvency and reduce contagion risk. For multilateral banks and development institutions, supporting these reforms strengthens overall economic governance.

Finally, in many civil law jurisdictions, insolvency still carries cultural stigma, often viewed as moral failure rather than economic risk. Overcoming this requires public education and a shift in narrative: insolvency should be seen as a regulated, legitimate process of economic adjustment that enables continuity and second chances.

6. Conclusion

MSEs are the foundation of the global economy, sustaining employment, innovation and local development. Yet, for decades, insolvency systems have systematically excluded them, offering mechanisms designed for complex corporate structures ill-suited to the operational and financial realities of small businesses. The persistent assumption that MSEs can be treated as scaled-down versions of large firms has proven both inaccurate and counterproductive. Their distinct characteristics – including limited access to finance, simplified accounting, personal liability exposure and informality – demand differentiated, proportionate and accessible legal responses.

Colombia's MSE insolvency system – introduced with permanent effect in 2024 – demonstrates that meaningful reform is achievable, even in developing contexts marked by resource constraints and institutional asymmetries. The Colombian model integrates international best practices, drawing from the World Bank's ICR Principles, the IMF's policy recommendations on MSE insolvency and UNCITRAL Legislative Guide on Insolvency Law (Part V), while adapting those practices to a civil law environment and the specific challenges of Latin American economies.

The Colombian model's innovation lies in the simplification, digitalisation and territorial decentralisation of insolvency procedures, allowing small debtors to access protection without prohibitive costs or excessive formalism.

However, the Colombian framework also exposes areas for refinement. The implementation capacity of regional facilitators, the training of insolvency professionals and the monitoring of post-reorganisation compliance remain challenges that could undermine long-term sustainability. Moreover, while the New Law successfully lowers entry barriers for MSEs, it must continue to evolve toward incorporating prevention-oriented mechanisms, such as early warning systems and out-of-court restructuring tools, areas where advanced economies such as Singapore and Australia have made significant progress.

Despite these challenges, Colombia's approach offers a replicable and context-sensitive model for emerging markets. It bridges the gap between international insolvency standards and local institutional realities, demonstrating that inclusiveness and efficiency need not be mutually exclusive. By embedding flexibility, technological accessibility and procedural proportionality, the Colombian experience transforms insolvency from an elite privilege into a universal economic right – one that enables honest entrepreneurs to reorganise, restart or exit the market with dignity.

In a global landscape defined by economic volatility and financial fragility, the Colombian model underscores a crucial paradigm shift: the preservation of value before its destruction. For emerging economies seeking to strengthen resilience, promote formalisation and foster sustainable recovery, Colombia's experience provides not only a legislative benchmark, but also a policy lesson in how to balance social equity, financial stability and institutional pragmatism within insolvency reform.

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